

# Quarterly Report



**For the Period Ending  
March 31, 2003**

*SOUTH DAKOTA LOTTERY*  
**STATEMENT OF NET ASSETS**  
*March 31, 2003*  
*(Unaudited)*

| <b>Assets</b>                                   | FY2003              | FY2002              |
|---|---------------------|---------------------|
| Current Assets:                                 |                     |                     |
| Cash and Cash Equivalents                       | \$11,024,648        | \$5,971,007         |
| Accounts Receivable                             | 5,256,384           | 4,525,124           |
| Interest Receivable                             | 92,678              | 92,678              |
| Certificates of Deposit                         | 784,148             | 657,003             |
| Securities Lending Collateral                   | 1,282,258           | 1,282,258           |
| Prepays   | 0                   | 11,216              |
| Total Current Assets                            | 18,440,116          | 12,539,286          |
| Noncurrent Assets:                              |                     |                     |
| Capital Assets less Accumulated Depreciation    | 10,471              | 11,860              |
| <b>Total Assets</b>                             | <b>\$18,450,587</b> | <b>\$12,551,146</b> |
| <b>Liabilities</b>                              |                     |                     |
| Current Liabilities:                            |                     |                     |
| Accounts Payable                                | \$242,623           | \$137,592           |
| Prizes Payable                                  | 869,068             | 796,605             |
| Due to the Property Tax Reduction Fund          | 4,564,397           | 3,920,829           |
| Due to the Capital Construction Fund            | 1,195,484           | 169,639             |
| Due to the General Fund                         | 3,299,761           | 44,199              |
| Due to Other Funds                              | 96,735              | <b>86,589</b>       |
| Operator Security Deposits                      | 842,848             | 662,903             |
| Escrows Payable-Reservation Sales               | 39,590              | 27,350              |
| Accrued Liabilities                             | 153,710             | 169,798             |
| Deferred Revenue                                | 78,098              | 96,617              |
| Securities Lending Collateral Liability         | 1,282,258           | 1,282,258           |
| Total Current Liabilities                       | 12,664,572          | 7,394,379           |
| Noncurrent Liabilities:                         |                     |                     |
| Accrued Liabilities                             | 105,139             | 100,074             |
| <b>Total Liabilities</b>                        | <b>\$12,769,711</b> | <b>\$7,494,453</b>  |
| <b>Net Assets</b>                               |                     |                     |
| Invested in Capital Assets, net of Related Debt | \$10,471            | \$11,860            |
| Unrestricted                                    | 5,670,405           | 5,044,833           |
| <b>Total Net Assets</b>                         | <b>\$5,680,876</b>  | <b>\$5,056,693</b>  |

The accompanying notes are an integral part of the financial statements.

SOUTH DAKOTA LOTTERY  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**For the Nine Month Period Ended March 31, 2003**  
(Unaudited)

|   | FY2003              | FY2002             |
|---|---------------------|--------------------|
| <b>Operating Revenues:</b>                    |                     |                    |
| Video Lottery Revenue                         | \$80,061,874        | \$103,865,443      |
| Instant Ticket Sales                          | 9,981,902           | 12,334,288         |
| On-Line Ticket Sales                          | 11,709,571          | 13,944,151         |
| Terminal License Fees                         | 911,800             | 902,800            |
| Retailer License Fees                         | 238,900             | 247,575            |
| <b>Total Operating Revenue</b>                | <b>102,904,047'</b> | <b>131,294,257</b> |
| <b>Direct Game Costs:</b>                     |                     |                    |
| Instant Prizes                                | 6,284,692           | 7,257,636          |
| On-Line Prizes                                | 5,928,690           | <b>6,886,042</b>   |
| Instant Retail Commissions                    | 561,406             | <b>685,894</b>     |
| On-Line Retail Commissions                    | 677,902             | 766,431            |
| Instant Ticket Print Costs                    | 201,076             | 532,776            |
| <b>Total Direct Costs</b>                     | <b>13,653,766</b>   | <b>16,128,779</b>  |
| <b>Gross Profit</b>                           | <b>89,250,281</b>   | <b>115,165,478</b> |
| <b>Operating Expenses:</b>                    |                     |                    |
| Personal Services and Benefits                | 958,533             | 1,210,160          |
| Travel  | 108,390             | 131,244            |
| Advertising                                   |                     | 578,102            |
| Contractual Services                          | 3,542,654           | <b>3,699,655</b>   |
| Supplies and Materials                        | 84,995              | 147,027            |
| Depreciation                                  | 1,389               | 1,854              |
| <b>Total Operating Expenses</b>               | <b>4,695,961</b>    | <b>5,768,042</b>   |
| <b>Operating Income</b>                       | <b>84,554,320</b>   | <b>109,397,436</b> |
| <b>Nonoperating Revenues (Expenses):</b>      |                     |                    |
| Pooled Investment Income                      |                     | 573,911            |
| Broker Rebate Expense                         | 0                   | (54,753)           |
| Payments to Reservations                      | (39,590)            | (29,951)           |
| Non-Compliance Fees                           | 1,000               | 20,000             |
| Miscellaneous Revenue                         | 21,810              | 9,465              |
| <b>Total Nonoperating Revenue (Expenses)</b>  | <b>(16,780)</b>     | <b>518,672</b>     |
| <b>Income Before Transfers</b>                | <b>84,537,540</b>   | <b>109,916,108</b> |
| <b>Transfers:</b>                             |                     |                    |
| Transfers to the Property Tax Reduction Fund  | 79,261,255          | 102,826,789        |
| Transfers to the General Fund                 | 3,314,761           | 4,274,199          |
| Transfers to the Capital Construction Fund    | 1,195,484           | <b>1,969,639</b>   |
| Transfers to the Department of Human Services | 141,857             | 200,000            |
| <b>Total Transfers</b>                        | <b>83,913,357</b>   | <b>109,270,627</b> |
| <b>Change in Net Assets</b>                   | <b>624,183</b>      | <b>645,481</b>     |
| Total Net Assets - Beginning                  | 5,056,693           | 4,411,212          |
| <b>Total Net Assets - Ending</b>              | <b>\$5,680,876</b>  | <b>\$5,056,693</b> |

The accompanying notes are an integral part of the financial statements.

SOUTH DAKOTA LOTTERY  
**STATEMENT OF CASH FLOWS**  
*For the Nine Month Period Ended March 31, 2003*  
(Unaudited)

|   | FY2003              | FY2002               |
|---|---------------------|----------------------|
| <b>Cash Flows from Operating Activities</b>   |                     |                      |
| Receipts from Customers and Users   | \$102,086,136       | \$131,299,284        |
| Payments for Lottery Prizes   | (12,079,876)        | (14,012,604)         |
| Payments to Suppliers   | (4,391,736)         | (5,787,080)          |
| Payments for Interfund Services Used  | (651,104)           | (819,320)            |
| Payments for Employee Services  | (969,556)           | (1,177,580)          |
| Other Receipts (Payments)   | 48,159              | 5,222                |
| Net Cash Provided (Used) by Operating Activities  | <u>84,042,023</u>   | <u>109,507,922</u>   |
| <b>Cash Flows from Noncapital Financing Activities</b>  |                     |                      |
| Transfers to Other Funds  | (78,988,382)        | (109,594,187)        |
| Net Cash Provided (Used) by Noncapital Financing Activities   | <u>(78,988,382)</u> | <u>(109,594,187)</u> |
| <b>Cash Flows from Investing Activities</b>   |                     |                      |
| Pooled Investment Income  |                     | <b>585,615</b>       |
| Security Lending Rebate Fees  | 0                   | (54,753)             |
| Net Cash Provided (Used) by Investing Activities  |                     | <u>530,862</u>       |
| Net Increase (Decrease) in Cash and Cash Equivalents<br>During the Fiscal Year                            | 5,053,641           | 444,597              |
| Cash and Cash Equivalents at Beginning of Year  | 5,971,007           | 5,526,410            |
| Cash and Cash Equivalents at End of Year  | <u>\$11,024,648</u> | <u>\$5,971,007</u>   |
| <b>Reconciliation of Operating Income to Net Cash<br/>Provided (Used) by Operating Activities</b>         |                     |                      |
| Operating Income  | \$84,554,320        | \$109,397,436        |
| <b>Adjustments to Reconcile Operating Income (Loss)<br/>to Net Cash Provided by Operating Activities:</b> |                     |                      |
| Depreciation Expense  | 1,389               | 1,854                |
| Other Revenue   | 22,810              | 29,465               |
| <b>Increase/Decrease in Assets:</b>   |                     |                      |
| Increase/Decrease in Accounts Receivable  | (730,310)           | 15,958               |
| Increase/Decrease in Certificates of Deposit  | (127,145)           | 300                  |
| Increase/Decrease in Prepaids   | 11,216              | (400)                |
| <b>Increase/Decrease in Liabilities:</b>  |                     |                      |
| Increase/Decrease in Accounts Payable   | 105,031             | (16,080)             |
| Increase/Decrease in Prizes Payable   | 72,463              | 107,598              |
| Increase/Decrease in Due to Other Funds   | 10,146              | (39,131)             |
| Increase/Decrease in Operator Security Deposits   | 179,945             | 3,700                |
| Increase/Decrease in Escrows Payable  | 12,240              | 1,965                |
| Increase/Decrease in Accrued Liabilities  | (11,023)            | 27,080               |
| Increase/Decrease in Deferred Revenue   | (18,519)            | 7,178                |
| Payments Made to Reservations   | (39,590)            | (29,951)             |
| Bad Debts   | (950)               | 950                  |
| Total Adjustments   | <u>(512,297)</u>    | <u>110,486</u>       |
| Net Cash Provided by Operating Activities   | <u>\$84,042,023</u> | <u>\$109,507,922</u> |

The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
***For the Nine Month Period Ended March 31, 2003***

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** The South Dakota Lottery Fund was created by the passage of Senate Bill 0254 during the 1987 Legislative Session. The South Dakota Lottery was authorized to market instant win games, with sales commencing on September 30, 1987.

Video Lottery was created by the passage of Senate Bill 0129 during the 1989 Legislative Session. The South Dakota Lottery was authorized to license and regulate a video lottery game with play commencing on October 16, 1989.

The 1990 Legislature approved lotto games with the passage of Senate Bill 0086. In April of 1990, South Dakota was accepted as a member of the Multi-State Lottery Association (MUSL) and on November 15, 1990, South Dakota began selling MUSL's Lotto\*America game. Powerball replaced Lotto\*America on April 19, 1992. Powerball was a 5 of 45 plus 1 of 45 game, with drawings twice a week. On November 5, 1997, Powerball changed to a 5 of 49 plus 1 of 42 game. The Power Play multiplier became available on March 3, 2001, and is an option to each Powerball play. A multiplier of 1, 2, 3, 4 or 5 was randomly selected during each drawing and would multiply the Powerball set prize amounts (except the jackpot) for players who purchased the option and won a set prize. On October 6, 2002, the Powerball matrix changed to 5 of 53 and 1 of 42. The Power Play multiplier also changed to one of 2, 3, 4 or 5.

Sales of Dakota Cash, South Dakota's own lotto game, with a minimum jackpot of \$20,000, began on April 12, 1993. Dakota Cash is a 5 of 35 lotto game with drawings twice a week. The prize pool is 50 percent of each drawing period's sales. Two percent is put in a prize reserve fund until a cap of \$200,000 is reached. At March 31, 2003, and June 30, 2002, the prize reserve fund had a balance of \$200,000 and \$199,868, respectively.

The South Dakota Lottery joined with the Montana and Idaho lotteries to offer Tri-West Lotto on February 21, 1994. Tri-West Lotto was a 6 of 41 lotto game with a prize pool of 50 percent of sales. After February 4, 1995, the game became a 6 of 33 lotto game with a prize pool of 55 percent of sales. Tri-West Lotto was replaced by Wild Card on February 1, 1998. Wild Card was a 6 of 38 plus a 1 of 52 lotto game and also had a prize pool of 55 percent of sales. On May 22, 1999, Wild Card was replaced by Wild Card 2, a 5 of 31 plus a 1 of 16 lotto game with a prize pool of 55 percent of sales. Wild Card 2 drawings are held twice a week.

The South Dakota Lottery began selling MUSL's Daily Millions game on September 16, 1996. Daily Millions was an all-cash lotto game played 7 days a week with a fixed top prize of \$1 million. To play Daily Millions, 2 numbers were drawn from 3 separate pools of 21 each. Daily Millions ended and Cash 4 Life began on March 30, 1998. The Cash 4 Life game allowed 15 sets of 4 numbers between 00 and 99 and was played 7 days a week. On September 8, 2000, Cash 4 Life was replaced by Rolldown, a 5 of 55 lotto game. Drawings were held 3 days a week. If there was no jackpot prize winner, the jackpot rolled down to all other prize levels. On April 7, 2002, Rolldown was replaced by Hot Lotto, a 5 of 39 plus 1 of 19 lotto game with drawings held 2 times a week.

The purpose of the Lottery is to provide additional monies to fund vital public projects and programs.

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Nine Month Period Ended March 31, 2003*

**Basis of Presentation** The South Dakota Lottery Fund is accounted for as a proprietary type enterprise fund for the State of South Dakota. Proprietary funds are accounted for using the accrual basis of accounting. The proprietary funds apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The financial statements are prepared in accordance with generally accepted accounting principles for proprietary (enterprise) funds.

**Cash and Investments** Funds of the South Dakota Lottery are on deposit with the South Dakota State Treasurer who preserves the integrity of the fund cash balance of each state fund while simultaneously allowing the deposit and investment of aggregate idle fund moneys. Investing is controlled by the South Dakota Investment Council. Interest is prorated once a year to participating funds and is recognized when earned. At March 31 these deposits were fully insured or collateralized with securities held by the state or its agent in the state's name.

Cash and investments are reported at fair value, which approximates market value, in accordance with GASB Statement No. 31. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Operator Security Deposits** ARSD 48:02:05:04(18) requires video lottery operators to furnish security to the lottery by July 1 of each year equal to one-eighteenth of the state's share of estimated annual net machine income derived from the operator's video lottery machines. Security may be in the form of a surety bond, deposit in cash, an irrevocable letter of credit, or a certificate of deposit issued by a South Dakota financial institution with the Lottery endorsed on it as a payee. As of March 31, 2003, and June 30, 2002, the amount of certificates of deposit being held by the Lottery was \$784,148 and \$657,003, respectively. The amount of \$5,522,200 and \$5,114,900, respectively, was in the form of surety bond, deposit in cash, or irrevocable letter of credit. The total Security Deposits on March 31, 2003, and June 30, 2002, were \$6,306,348 and \$5,771,903, respectively.

**Accounts Receivable** Accounts receivable represents the following: \_\_\_\_\_

|  | 2003               | 2002               |
|--|--------------------|--------------------|
| <i>Uncollected instant/on-line ticket revenues</i> | \$ 660,300         | \$ 582,340         |
| <i>Uncollected video lottery revenues and fees</i> | 4,614,773          | 3,962,423          |
|  | <u>\$5,275,073</u> | <u>\$4,544,763</u> |

An allowance for doubtful instant/on-line accounts was established at \$18,689. The allowance reflects actual instant/on-line accounts deemed uncollectable as of March 31, 2003, and June 30, 2002.

**Furniture, Fixtures & Equipment** Furniture, fixtures and equipment are carried at cost or estimated historical cost if the original cost is unavailable. Fixed assets are capitalized, based on the criteria of: a useful life of one year or more; tangible in nature; and a unit cost of \$5,000 or more. Depreciation is computed using the straight-line method over the asset's estimated useful life. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts. Any gain or loss is reflected in operations in the period of disposal.

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Nine Month Period Ended March 31, 2003**

**Due to the General Fund and Due to the Capital Construction Fund** The Lottery shall maximize net proceeds to the state from the sale of instant and on-line tickets. These net proceeds are transferred to the General Fund/Capital Construction Fund on an annual basis on or about July 1. There was a liability for instant ticket sales and on-line ticket sales to the General Fund in the amount of \$3,299,761 and \$44,199 and a liability for on-line ticket sales to the Capital Construction Fund in the amount of \$1,195,484 and \$169,639 as of March 31, 2003, and June 30, 2002, respectively.

**Due to the Property Tax Reduction Fund** SDCL 42-7A-63 sets the state's percentage of net machine income at fifty percent (50%) of which all but one-half of one percent (0.5%) of net machine income shall be deposited into the Property Tax Reduction Fund. At March 31, 2003, and June 30, 2002, there was a liability to the Property Tax Reduction Fund in the amount of \$4,564,397 and \$3,920,829, respectively.

**Deferred Revenue** A liability has been recorded for on-line tickets sold for future drawings that were collected before March 31.

**Accrued Liabilities** Accrued liabilities that have been incurred but not yet paid as of March 31 include accrued wages, accrued bonuses and accrued benefits.

**Revenue Recognition** Sales of instant and on-line tickets are made to the public through licensed retailers. Instant ticket sales for games in progress are recorded as retailers settle (sell) the books of tickets. Adjustments based upon the known relationship of the number of tickets sold to the number of winning tickets redeemed through the end of the accounting period are made as necessary. Instant ticket sales for ended games and on-line ticket sales are reported as the actual ticket sales made to the public through the licensed retailers.

**Prizes** Prize expense is recorded as prizes are paid. Adjustments are made based on the predetermined prize structure for each instant game as necessary. Prizes payable represents the difference between the amount of prize expense recognized and actual prizes paid.

Prize expense and prizes payable for on-line games are recorded based on actual drawing results. Prizes payable represents unpaid prizes not yet claimed or reverted.

A minimum of fifty percent (50%) of the projected revenue from the sale of lottery tickets, computed on a year-round basis, is allocated for payment of prizes. Prizes may be claimed up to 180 days after the official end of the game. Unclaimed prizes are added to the prize pools of subsequent lottery games. Reverted prizes as of March 31, 2003, and June 30, 2002 were \$396,451 for on-line prizes and \$218,519 for instant prizes, and \$329,702 for on-line prizes and \$235,076 for instant prizes, respectively.

**Escrows Payable** During the 1989 Legislative Session, HB 1344 passed which authorizes tribal governments to receive up to fifty percent (50%) of the state's revenue on lottery products sold on that reservation. Fifty percent (50%) of the state's share of revenue on the reservations has been escrowed for payment to them.

**Due to Other Funds** A liability has been created for services provided by other components of state government but not yet paid as of March 31.

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Nine Month Period Ended March 31, 2003*

**Retailer Commission** Lottery retailers selling instant and on-line tickets receive a five percent (5%) commission on each ticket sold or distributed to the public. Instant retailers receive a one percent (1 %) selling commission for selling instant prize winning tickets over \$101 and a one percent (1 %) cashing commission for cashing instant prize winning tickets of \$1 up to \$100.

On-line retailers selling a jackpot winning Powerball ticket may receive a bonus of \$30,000. Selling bonuses of \$5,000 and \$500 may be paid to retailers selling Powerball tickets of \$100,000 and \$5,000, respectively. Retailers who sell a Dakota Cash jackpot winning ticket may receive a bonus equal to five percent (5%) of the value of the winning ticket not to exceed \$5,000. Retailers who sell a Wild Card 2 jackpot winning ticket may receive a bonus equal to one percent (1 %) of the value of the winning ticket, not to exceed \$10,000. Retailers who sell a Rolldown jackpot winning ticket may receive a bonus equal to five percent (5%) of the value of the winning ticket, not to exceed \$10,000. Retailers who sell a Hot Lotto jackpot winning ticket or a \$10,000 winning ticket may receive a bonus of \$10,000 and \$1,000, respectively.

**NOTE 2. CASH AND INVESTMENTS HELD BY SOUTH DAKOTA INVESTMENT COUNCIL**

Cost and fair value, which approximates market value, of cash and investments on June 30 consist of the following:

|  | 2002<br>Cost | 2002<br>Fair Value | 2001<br>Cost | 2001<br>Fair Value |
|--|--------------|--------------------|--------------|--------------------|
| <i>Cash and Investments managed by the<br/>South Dakota Investment Council</i> | \$5,833,358  | \$5,967,325        | \$5,414,394  | \$5,517,833        |
| <i>Cash in Local Bank Accounts</i>   | \$3,682      | \$3,682            | \$8,577      | \$8,577            |
| Total  | \$5,837,040  | \$5,971,007        | \$5,422,971  | \$5,526,410        |

**Securities Lending Transactions**

State statutes and the South Dakota Investment Council (SDIC) policies permit the use of investments for securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities with the simultaneous agreement to return the collateral for the same securities in the future. The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires them to indemnify if the borrowers fail to return the loaned securities (and the collateral is inadequate to replace the securities lent).

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Nine Month Period Ended March 31, 2003*

The securities loans can be terminated on demand by either the SDIC or the borrower, although the average term of the loans is one business day. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short-term investments.

The ability to pledge or sell collateral securities can be made without borrower default. In addition, no restriction on the amount of the loans exist or can be made. The amount reported as Securities Lending Collateral of \$1,282,258 and Securities Lending Collateral Liability of \$1,282,258 on the statement of net assets represents the Lottery's share of the SDIC total as of March 31, 2003, and June 30, 2002.

**NOTE 3. ANNUAL AND SICK LEAVE**

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At March 31, 2003, and June 30, 2002, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$95,170 and \$97,790, respectively. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee's annual compensation. At March 31, 2003, and June 30, 2002, a liability existed for accumulated sick leave for twenty-four (24) and twenty-three (23) employees, respectively, calculated at the employee's June 30 pay rate in the amount of \$107,067 and \$93,829, respectively. A potential liability also existed for unvested sick leave at March 31, 2003, and June 30, 2002, in the amount of \$7,331 and \$8,111, respectively, of which \$5,249 and \$5,807, respectively, has been accrued.

**NOTE 4. OPERATING LEASES**

The South Dakota Lottery entered into agreements to lease buildings and certain equipment. Some of the operating leases contain the provision that the South Dakota Lottery may renew the operating leases at the expiration date of the lease on a year-to-year basis. In most cases management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature.

The following schedule is a summary of future minimum rental payments by years required under operating leases with lease terms in excess of one year as of June 30, 2002:

| <u>Period Ending June 30:</u> |           |
|-------------------------------|-----------|
| 2003                          | \$83,038  |
| 2004                          | 41,670    |
| 2005                          | 5,713     |
| Total Minimum Payments        | \$130,421 |

Total rental expense for all operating leases as of March 31, 2003, and June 30, 2002 was \$93,062 and \$134,592, respectively.

SOUTH DAKOTA LOTTERY  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Nine Month Period Ended March 31, 2003*

**NOTE 5. EMPLOYEES' RETIREMENT SYSTEM**

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after five years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 5 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The South Dakota Lottery's contributions to the SDRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$47,024, \$45,732, and \$49,433, respectively, equal to the required contributions each year.

**NOTE 6. VIDEO LOTTERY**

Following is a summary of video lottery revenues as of March 31, 2003, and June 30, 2002:

|  | 2003           | 2002           |
|--|----------------|----------------|
| Cash In (sales)  | \$ 465,271,626 | \$ 603,597,346 |
| Less Cash Out (prizes)                                   | 305,147, 878   | 395,866,460    |
| Video Lottery Net Machine Income                         | 160,123,748    | 207,730,886    |
| Less Operator and Establishment Share                    | 80, 061, 874   | 103,865,443    |
| Video Lottery Revenue Available to the State             | 80, 061, 874   | 103,865,443    |
| Less Lottery Operating Share                             | 800,619        | 1,038,654      |
| Video Lottery Revenue to the Property Tax Reduction Fund | \$ 79,261,255  | \$ 102,826,789 |

**NOTE 7. TRANSFERS**

Following is a summary of total transfers as of March 31, 2003, and June 30, 2002:

| Transfers Out:   | 2003         | 2002          |
|--|--------------|---------------|
| General Fund Proceeds from Instant and On-Line                         | \$ 0         | \$ 4,200,000  |
| Capital Construction Fund Proceeds from On-Line                        | 0            | 1,800,000     |
| General Fund Proceeds from Instant and On-line not Yet Transferred     | 3,299,761    | 44,199        |
| Capital Construction Fund Proceeds from On-Line not Yet Transferred    | 1,195,484    | 169,639       |
| Video Lottery Proceeds Transferred to the Property Tax Reduction Fund  | 74,696,858   | 98,905,960    |
| Video Lottery Proceeds to Prop. Tax Reduction Fund not Yet Transferred | 4,564,397    | 3,920,829     |
| Video Lottery Grant to Department of Human Services                    | 141,857      | 200,000       |
| Video Lottery Fees Transferred to the General Fund                     | 15,000       | 30,000        |
| Total Transfers Out  | \$83,913,357 | \$109,270,627 |

SOUTH DAKOTA LOTTERY  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Nine Month Period Ended March 31, 2003*

**NOTE 8. PARTICIPATION IN THE MULTI-STATE LOTTERY**

The South Dakota Lottery is a member of the Multi-State Lottery (MUSL), which operates the Powerball/Power Play, Rolldown/Hot Lotto, and Wild Card 2 games. Each MUSL member sells tickets through its licensed retailers and makes weekly wire transfers to the MUSL in an amount equivalent to the member lottery's share of the prize liability less the actual low-tier prize liability.

The prize pool for Powerball and Rolldown/Hot Lotto consists of 50 percent of each drawing period's sales. The prize pool for Power Play is 48.5 percent of sales. The prize pool for Wild Card 2 is 55 percent of each drawing period sales with all cash prizes. Two percent of sales for Powerball, Wild Card 2 and Rolldown and 1.5 percent for Power Play are placed in a prize reserve fund. For Hot Lotto, up to 2 percent of sales is placed in a prize reserve fund after the advertised jackpot exceeds \$2 million. The prize reserve fund serves as a contingency reserve to protect the MUSL in cases of unforeseen liabilities. The money in this reserve is to be used at the discretion of the MUSL Board of Directors.

The prize reserve fund monies may be absorbed by a replacement game or are refundable to member states if MUSL or the MUSL game group disbands or if a member leaves MUSL or a game group. Members leaving must wait one year before receiving their remaining share, if any, of the prize reserve fund. At March 31, 2003, and June 30, 2002, the MUSL Powerball prize reserve fund had a balance of \$53,040,438 of which the South Dakota Lottery's share was \$600,453. The set prize reserve fund had a balance of \$31,428,750 and \$25,732,874, respectively, of which the South Dakota Lottery's share was \$444,728. The Wild Card 2 prize reserve fund had a balance of \$953,953 and \$956,612, respectively, of which the South Dakota Lottery's share was \$212,497 and \$213,015. At March 31, 2003 and June 30, 2002, the Hot Lotto prize reserve fund had a balance of \$0 and \$68,304, respectively, of which the South Dakota Lottery's share was \$0 and \$2,851, respectively.

Prior to November 5, 1997, the Powerball jackpot was payable to the winner(s) in annual installments over 20 years, with the first payment being made by the member lottery starting at the time of the drawing. Since November 5, 1997, players can choose one lump-sum cash payment or receive the jackpot prize over 25 annual payments. Treasury zero coupon bonds that provide payments corresponding to the member lottery's obligation to these prize winners are purchased by the MUSL in the name of the member lottery. MUSL will hold these bonds and will cash the bonds when due and wire the money to the member lottery's account on or before the anniversary date of the win. The Wild Card 2 jackpot is paid in cash, and will be divided equally among all jackpot winners for a specific drawing. The Hot Lotto jackpot prize can be taken as cash or annuity and is divided equally among multiple winners. Rolldown prizes were cash prizes.

As of March 31, 2003, and June 30, 2002, the MUSL had purchased, for the South Dakota Lottery, zero coupon bonds to fund installment payments aggregating \$12,466,937. The total purchase price of these bonds was \$6,509,238.

**NOTE 9. CONTRACTUAL ARRANGEMENTS**

- A. Instant Tickets - The South Dakota Lottery entered into a contract with Scientific Games to provide instant game tickets through June 28, 2003, with possible extension through June 28, 2005.

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
***For the Nine Month Period Ended March 31, 2003***

- B. On-line and Video Lottery Vendor - The South Dakota Lottery has contracted with Automated Wagering International, Inc., a wholly owned subsidiary of International Game Technology, to operate an on-line lottery system and a video lottery system through August 2, 2006, with possible extension through August 2, 2009.

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